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RUEHDK/AMEMBASSY DAKAR 2399
RUEHKM/AMEMBASSY KAMPALA 2823
RUEHNR/AMEMBASSY NAIROBI 5251
RUEAIIA/CIA WASHDC
RUEHGV/USMISSION GENEVA 1944
RHEHAAA/NSC WASHDC
RHMFISS/JOINT STAFF WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RHEFDIA/DIA WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RUZEJAA/JAC MOLESWORTH RAF MOLESWORTH UK
RUZEHAA/CDR USEUCOM INTEL VAIHINGEN GE

C O N F I D E N T I A L SECTION 01 OF 03 HARARE 000161

SIPDIS

AF/S FOR B. WALCH
AF/EPS FOR ANN BREITER
NSC FOR SENIOR AFRICA DIRECTOR
STATE PASS TO USAID FOR L.DOBBS AND E.LOKEN
TREASURY FOR D. PETERS
COMMERCE FOR ROBERT TELCHIN
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS

E.O. 12958: DECL: 02/26/2019
TAGS: [EMIN](#) [ECON](#) [EFIN](#) [PGOV](#) [ZI](#)
SUBJECT: ZIMBABWE,S PLATINUM AND DIAMOND COMPANIES BUCK RBZ
DIRECTIVE

REF: A. HARARE 141
[B](#). HARARE 096
[C](#). 07 HARARE 172

Classified By: Ambassador James D. McGee for reason 1.4 (d)

SUMMARY

[1](#)1. (C) Zimbabwe's established platinum and diamond mining companies are resisting the Reserve Bank of Zimbabwe's (RBZ) directive to localize their foreign currency accounts and submit to greater RBZ control. They maintain RBZ Governor Gono does not have the authority to change mineral policy and expect Gono,s proposals to be short-lived. The new Minister of Mines and Mining Development Obert Mpofu is a Mugabe crony and brings no knowledge of mining to the job, but he is apparently prepared to butt heads with Gono and wrestle back authority over minerals from the Governor. We expect the MDC, which knows that Gono is a lightning rod for donors, to seek his removal in the coming weeks. END SUMMARY.

Gono Overstretches in Attacking Platinum Industry

[1](#)2. (C) Alex Mhembere, CEO of Zimbabwe Platinum Mines (Zimplats), Zimbabwe's dominant platinum producer and generator of one third of Zimbabwe,s foreign exchange earnings (Ref A), told econoff on February 25 that Zimplats had informed the government it would not comply with RBZ Governor Gono,s directive (Ref B) to localize its foreign currency accounts. Mhembere reiterated the terms of Zimplats

Special Mining Lease that allowed the company to maintain its earnings offshore (Ref C) and argued Gono did not have the authority to revoke the agreement or to compel Zimplats to hold its earnings locally. Mhembere said Zimplats' Special Mining Lease superseded the Reserve Bank Act that controls foreign currency accounts (FCAs). Regarding Gono,s announced reclassification of platinum as a reserve asset under RBZ control, he said Gono had once again overstretched his authority as such a change required an amendment to the Mines and Minerals Act. Mhembere believed Gono's proposal would "die a quiet death."

13. (C) Regarding Gono's announcement of a 7.5 percent foreign exchange surrender requirement for exporters, refundable to the exporter in local currency at the interbank exchange rate, Mhembere said the GOZ owed Zimplats US\$34 million from an earlier US\$47 million advance. It had been agreed that Zimplats would deduct the surrender requirement from that balance. (COMMENT: We had heard that Zimplats had advanced the GOZ funds and that there was friction over the GOZ,s unsatisfactory servicing of the debt, but we had not been able to establish until now the size of the loan. END COMMENT.)

14. (C) Winston Chitando, Managing Director of platinum Q4. (C) Winston Chitando, Managing Director of platinum company Mimosa Mining Co. and Vice President of the Chamber of Mines, told econoff on February 25 that new Mines and Minerals Development Minister Obert Mpofu opposed the reclassification of platinum placing it under RBZ control and that the GOZ would reverse Gono,s announcement this week.

HARARE 00000161 002 OF 003

Mpofu had told Chitando the previous day that Gono had drafted a statutory instrument for former Mines Minister Midzi,s signature to make platinum a reserve asset. Gono, however, had not moved fast enough; Midzi,s Permanent Secretary Thabani Ndlovu "sat on" the instrument until Mpofu replaced Midzi as Minister earlier this month.

15. (C) Regarding localization of FCAs, Chitando said that the RBZ, in Mimosa's case, did in fact have the authority to compel the company to hold its FCAs in Zimbabwe, as Mimosa had less favorable lease terms than Zimplats, but that Mimosa had reached a compromise. It would hold a mirror FCA account in Zimbabwe and its local bank would meet the RBZ's statutory reserve requirement. Mimosa was also negotiating to reduce the requirement to less than the current 10 percent. On the surrender requirement, Chitando said that Mimosa was negotiating a smaller surrender requirement than 7.5 percent and expected the RBZ to eliminate the requirement entirely. Chitando called it an onerous tax on exporters that the RBZ had imposed without consulting industry. Mhembere told us Gono planned to lower the surrender requirement to 5 percent in October, 2009 and eliminate it in January 2010.

16. (C) Anglo American Corporate Finance Specialist Colin Chibafa told econoff on February 11 that the government was broke, which the platinum producer viewed as the underlying reason for seeking to localize platinum companies' FCAs to gain access to statutory reserves. (COMMENT: The RBZ has used steep statutory reserve requirements to fund off-budget spending in the past. END COMMENT.) Chibafa was concerned about the risk of the RBZ raiding its FCA if it were held in Zimbabwe. At the moment, low confidence kept Anglo American, which will only begin platinum production in 2010, from holding more than the smallest possible balance in its local FCA. It paid most of its suppliers from its South African accounts, rather than from Zimbabwe. Chibafa expected the recent policy shifts on platinum to "blow over" under the new inclusive government.

Murowa Diamonds Bucks Gono Too

17. (C) Murowa Diamonds CEO Neils Kristensen told econoff on February 6 that his company, in coordination with powerful ally Zimplats, would not comply with Gono,s directives. The dispensation to hold its earnings offshore was the basis of the company's initial decision to invest in Zimbabwe and it underpinned Murowa,s expansion plans and its offshore loans.

He warned that Murowa, 78 percent owned by Rio Tinto, risked bank foreclosure if it complied. The diamond executive conceded that Murowa, like Mimosa, was in a weaker legal position than Zimplats, but it would seek a court injunction if the GOZ attempted to force it to localize its accounts. In the meantime, shareholders were nervous but supportive of management's "sit tight/buy time" strategy. Murowa, like Mimosa, anticipated a policy reversal by the new government.

Mimosa's Production Plans

18. (C) Chitando said Mimosa planned to increase production only minimally in 2009. Expansion beyond its present

HARARE 00000161 003 OF 003

220-meter deep shaft was on hold due to the combined difficulties of raising debt and generating internal funds in light of the weakened world platinum price. He said Mimosa, unlike Zimplats and Anglo American, had never come under any pressure to relinquish ground to the GOZ, primarily because it owned much less ground than the other two companies. Nor was the South African/Australian-owned company particularly concerned about indigenization as it did not intend to restructure, which would trigger indigenization requirements.

He said Mimosa employed 100 percent Zimbabwean staff, paid a "good" salary package in U.S. dollars, and therefore did not have a problem with skills retention.

Two Views on New Mines Minister Mpofu

19. (C) Mhembere said the mining industry had been surprised by Mpofu's appointment since, as Minister of Commerce and Industry responsible for the implementation of price controls he had wreaked havoc on industry. Mhembere hosted Mpofu on a tour of Zimplats' Ngezi mine earlier this month. Mhembere recounted that during the tour Mpofu had voiced strong, negative views of RBZ Governor Gono. Mpofu told Mhembere that Gono,s portfolio had grown too big, and that he had begun to act as a "quasi prime minister." Mhembere told us that Mpofu was very close to President Mugabe. He also said, and without explanation, that Mpofu was "very weak morally." Mhembere had found Mpofu to be "totally ignorant" of the mining industry but open to learning. The Zimplats executive feared, however, that as Mpofu admired the Ngezi mine he was probably thinking "I wish it were mine."

110. (C) Chitando was more positive on Mpofu. He was pleased that the new minister was willing to take on Gono and reject the re-classification of platinum. He was also optimistic that Mpofu would rebuild the Zimbabwe School of Mines. Regarding Mpofu's role in the price controls disaster, Chitando was an apologist, saying that Mpofu had no choice but to carry out the Cabinet's directives.

COMMENT

111. (C) Gono is increasingly embattled. Finance Minister Biti is taking him on and asserting finance's traditional authority over revenue and expenditure; even ZANU-PF stalwart and Mugabe crony Obert Mpofu appears to be having some success in clawing back ground from the Reserve Bank Governor. We welcome the weakening of Gono's power but remain convinced, nevertheless, that "Gono must go." In a press

conference yesterday, Prime Minister Morgan Tsvangirai referred to Gono's reappointment as an outstanding issue to be resolved. We expect the MDC, which knows that Gono is a Qbe resolved. We expect the MDC, which knows that Gono is a lightning rod for donors, to seek his removal in the coming weeks. END COMMENT.

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